

Message Text

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ACTION NEA-10

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 2599

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DEPT PASS FRB, TREASURY, EX-IM, OPIC

E.O. 11652: N/A

TAGS: EFIN, SA

SUBJECT: OFFICIAL SAUDI FINANCIAL INTERMEDIARIES

SUMMARY: EMBASSY IS CURRENTLY WORKING ON A DESCRIPTIVE ANALYSIS OF OFFICIAL FINANCIAL INSTITUTIONS IN SAUDI ARABIA. BECAUSE OF VARIOUS INQUIRIES FROM DEPARTMENT AND ELSEWHERE WHICH INDICATE CONFUSION ABOUT FUNCTION OF THESE INSTITUTIONS THE FOLLOWING THUMBNAIL SKETCH IS PROVIDED. IT MAY HELP DEPARTMENT, COMMERCE AND TREASURY IN STEERING BUSINESSMEN AND OFFICIAL VISITORS INTO RIGHT CHANNELS OR EVEN DISCOURAGING THE MOST OBVIOUS FISHING EXPEDITIONS. END SUMMARY

1. SAUDI ARABIAN MONETARY AGENCY (SAMA). SAMA FUNCTIONS AS SAUDI ARABIA'S CENTRAL BANK. OF INTEREST TO U.S. BUSINESSMEN IS THE FACT THAT SAMA IS RESPONSIBLE FOR PLACING THE KINGDOM'S LARGE INTERNATIONAL RESERVES OUTSIDE THE KINGDOM. TO DATE THESE RESERVES HAVE BEEN PLACED MAINLY IN HIGH-GRADE, GOVERNMENT GUARANTEED, MEDIUM TO LONG TERM PAPER. ALTHOUGH MOST OF THIS MONEY IS HELD IN GOVERNMENT BONDS, SOME IS IN QUASI-GOVERNMENTAL AGENCIES OR CORPORATIONS. A GOOD DEAL OF MONEY IS HELD IN SHORT
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TERM DEPOSITS WITH LARGE INTERNATIONAL BANKS. SAMA HAS

BEGUN, DURING THE LAST SIX MONTHS TO STEER MONEY (THROUGH ITS PORTFOLIOS HELD BY VARIOUS BANKS) INTO HIGH-GRADE CORPORATE DEBT AND EVEN INTO SOME EQUITY. SO FAR AS EMBASSY KNOWS SAMA HAS NOT INVESTED DIRECTLY IN THE EQUITY OF ANY FIRM, AND HAS INSTRUCTED ITS PORTFOLIO MANAGERS TO KEEP SAMA INVESTMENT IN ANY ONE FIRM BELOW 5 PERCENT OF OUTSTANDING EQUITY. SAMA POLICY IS TO INVEST ONLY IN THOSE COUNTRIES WHERE EXCHANGE RISK CAN BE MINIMIZED. IT DOES NOT REPEAT NOT MAKE DEVELOPMENT LOANS TO LDCS. GOKERNOR: ABDUL AZIZ AL-QURAISHI; HEAD OF INTERNATIONAL INVESTMENTS: AHMET ABDULLATIF; FINANCIAL ADVISORS PROVIDED BY WHITE, WELD, CO. AND BARING BROS. HEAD OFFICE: JIDDA P.O. BOX 394; TELEX 40011.

2. SAUDI DEVELOPMENT FUND (SDF). THE SDF WAS CREATED TO CHANNEL SAUDI FUNDS INTO THE DEVELOPING WORLD. THE SDF DOES NOT YET HAVE THE STAFF TO PROVIDE DETAILED PROJECT ANALYSIS SO HAS BEEN GRANTING LOANS LARGELY ON POLITICAL GROUNDS; ON INSTRUCTIONS FROM ELSEWHERE IN THE SAG. LOANS MAY NOT EXCEED 5 PERCENT OF THE CAPITAL OF THE FUND NOR 50 PERCENT OF THE COST OF A PROJECT. FIXED CAPITAL: SR 10 BILLION. PAID IN TO DATE SR 1.5 BILLION. MANAGING DIRECTOR: DR. MAHSOUN JALLAL. HEAD OFFICE: RIYADH.

3. SAUDI INDUSTRIAL DEVELOPMENT FUND (SIDF). THE SIDF WAS SET UP TO PROVIDE INTEREST FREE MEDIUM TO LONG-TERM FINANCING FOR THE PRIVATE SECTOR. AN "ADMINISTRATIVE" CHARGE OF 1 TO 2 PERCENT OF PROJECT FINANCING (INCLUDING EXPANSION), BUT NO SIDF LOAN MONEY MAY BE USED FOR WORKING CAPITAL. ONLY SAUDI-OWNED FIRMS MAY OBTAIN LOANS. THE FUND IS MANAGED BY CHASE MANHATTEN BANK, WHICH HAS PROVIDED A VERY CAPABLE STAFF OF PROJECT ANALYSTS. (THE SIDF RECENTLY LOANED SR 730 MILLION TO SAUDI ELECTRIC COMPANIES, A SPECIAL LOAN FROM A SEPARATE ALLOCATION BY THE SAG.) OPERATING CAPITAL: SR 500 MILLION. MANAGING DIRECTOR: ANTOINE DETRIE. HEAD OFFICE: RIYADH.

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4. GENERAL INVESTMENT FUND (GIF). THE GIF IS THE VEHICLE BY WHICH THE SAG FINANCES INVESTMENTS IN LARGE-SCALE, PUBLICLY OWNED INDUSTRY. GENERALLY THIS HAS MEANT INDUSTRY OWNED AND OPERATED BY PETROMIN. GIF HOLDS SHARES IN VENTURES SUCH AS SAFCO (SAUDI ARABIAN FERTILIZER CO.) WITH THE AVOWED PURPOSE OF SELLING SHARES TO THE PUBLIC WHEN FIRMS BECOME SELF SUSTAINING. OPERATING CAPITAL: SR 3 BILLION. SECRETARY GENERAL: ELAKEEL.

(GIF FALLS UNDER GENERAL DIRECTION OF THE MINISTRY OF FINANCE). HEAD OFFICE: RIYADH.

5. REAL ESTATE DEVELOPMENT FUND (REDF). REDF WAS CREATED TO FINANCE ACQUISITION OF HOMES BY SAUDI CITIZENS. FUND WILL LOAN UP TO 70 PERCENT OF COST OF LAND AND CONSTRUCTION PROVIDED LAND IS HELD BY INDIVIDUAL. MAXIMUM LOAN SR 300,000. NO INTEREST RATES ARE TO BE CHARGED, NO COLLATERAL IS PUT UP AND CITIZEN NEED NOT EVEN PROVE HE IS EMPLOYED. OVER SR 1.5 BILLION HAS BEEN COMMITTED, IN THE LAST THREE MONTHS, ALTHOUGH ANNOUNCED CAPITAL OF FUND WAS SR 250 MILLION. MANAGING DIRECTOR: ABDULLAH BLAHED. HEAD OFFICE: RIYADH. LOANS ARE ADMINISTERED BY RIYADH BANK AND NATIONAL COMMERCIAL BANK.

6. CONTRACTORS' FINANCING PROGRAM. PROVIDES INTEREST FREE LOANS TO SAUDI CONTRACTORS. OPERATING CAPITAL: SR 50 MILLION.

7. ARAB PETROLEUM INVESTMENTS CO. (APIC). APIC IS SUPPOSEDLY TO BE CREATED BY THE OPEC NATIONS WITH HEADQUARTERS IN DHAHRAN. OPERATING CAPITAL: SR 3.6 BILLION. PURPOSE: TO INVEST IN AND ASSIST IN PREPARING PROJECTS IN OIL AND GAS-RELATED INDUSTRIES IN THE ARAB WORLD.

8. ISLAMIC DEVELOPMENT FUND (IDF). RECENTLY CREATED IDF WILL BE LOCATED IN JIDDA. PARTICIPANTS LISTED IN JIDDA 5449. OPERATING CAPITAL: \$1.2 BILLION. MANAGING DIRECTOR: AHMED ALI (SAUDI).

9. ARAB INVESTMENT COMPANY (AIC). AIC IS A JOINT STOCK COMPANY WHOLLY OWNED BY 12 ARAB NATIONS. SUBSCRIBED UNCLASSIFIED

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CAPITAL IS \$240 MILLION OF WHICH 20 PERCENT IS PAID UP. AIC WILL TAKE AN EQUITY POSITION IN INVESTMENT ANYWHERE IN THE ARAB WORLD, AND WILL PARTICIPATE ACTIVELY IN FINANCING, INCLUDING MANAGING OR CO-MANAGING FINANCIAL ISSUES. AIC WILL HOLD MORE THAN 15 PERCENT OF AUTHORIZED CAPITAL IN ANY ONE PROJECT. MANAGING DIRECTOR: IBRAHIM AL-IBRAHIM (KUWAITI). HEAD OFFICE: RIYADH. TELEX: 20011/ARABVST, P.O. BOX 4009. BRANCHES IN CAIRO AND KHARTOUM.

10. SAUDI/EGYPTIAN INDUSTRIAL INVESTMENT COMPANY. CAPITALIZED AT \$100 MILLION. 50 PERCENT SAUDI OWNERSHIP. SAUDI/EGYPTIAN RECONSTRUCTION COMPANY. CAPITALIZED AT \$50 MILLION. 50 PERCENT SAUDI.

11. SAUDIS ARE, OF COURSE, MEMBERS OF A VARIETY OF

INTERNATIONAL OR REGIONAL FUNDS AND BANKS. THOSE ABOVE
ARE THE CHIEF FINANCIAL INSTITUTIONS WHICH MAY PROVE OF
INTEREST TO AMERICAN BUSINESSMEN AND/OR U.S. GOVERNEMENT
OFFICIALS INTERESTED IN PURSUING DIRECT INVESTMENT IN
SAUDI ARABIA OR TRILATERAL INVESTMENT OPPORTUNITIES IN
THE ARAB WORLD.
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